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Automotive Hardware Limited Annual Report 1974

Directors

Irwin Goldhart,
President,
Automotive Hardware Limited

Frances A. Reid,
Vice-President,
Automotive Hardware Limited

Goldie Potashin,
Secretary-Treasurer,
Automotive Hardware Limited

Sidney Goldhart,
Vice-President,
Docap Corporation Limited

Ross M. Hanbury,
Consultant

Harry L. Mendelson, Q.C.,
Barrister and Solicitor

Officers

Irwin Goldhart, *President*
Frances A. Reid, *Vice-President*
Goldie Potashin, *Secretary-Treasurer*

**Registrar, Transfer Agent
and Trustee**

National Trust Company Limited
Montreal, Toronto, Winnipeg, Calgary
and Vancouver

Auditors

Miller, Stone, Saperia and Isaacs
Chartered Accountants

Shares Listed

Toronto Stock Exchange

Head Office & Plant

55 Brown's Line, Toronto, Ont.

Cover photograph

Bolts enter the 1600°F (871° Celsius)
controlled atmosphere of one of
Federal's 2000 lb. per hour continu-
ous heat treating furnaces.

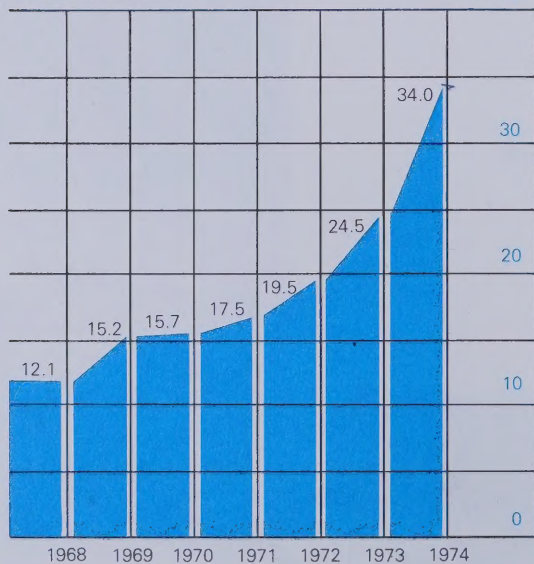
Photographs by F. A. Reid,
M. J. Reid.

Comparative Highlights

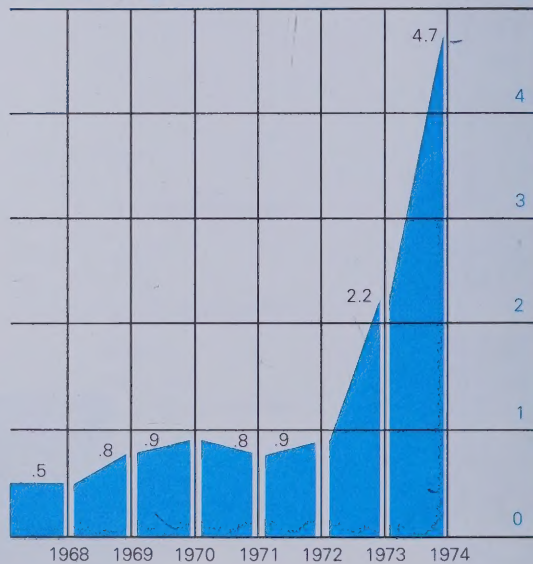
	Year Ended December 31,	
	1974	1973
Sales	\$34,066,176	\$24,540,624
Income before Income Taxes ...	\$ 9,054,318	\$ 4,204,848
Income Taxes	\$ 4,271,077	\$ 1,987,581
Net Earnings	\$ 4,697,182	\$ 2,217,267
Net Earnings per Share*	\$ 5.21	\$ 2.46
Shareholders' Equity	\$14,788,138	\$10,518,781
Equity Per Share*	\$ 16.40	\$ 11.67
Working Capital	\$12,384,314	\$ 7,866,166
Working Capital Ratio	3.81:1	2.62:1
Dividends per Share	48¢	24¢
*Based on 901,850 outstanding in 1974, compared to 901,500 in previous year.		

A History of Progress

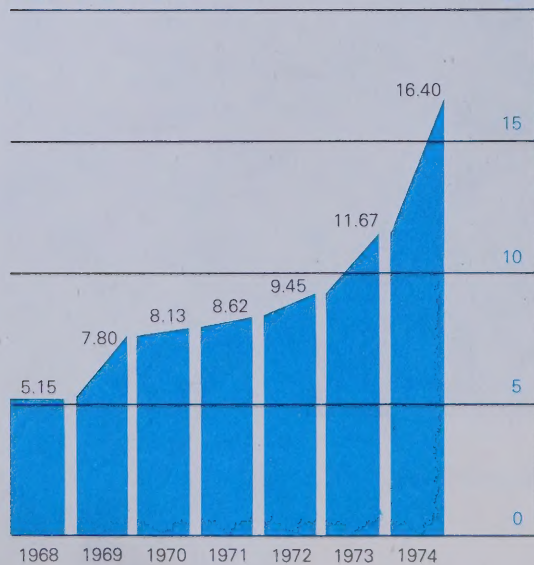
Sales (Millions)



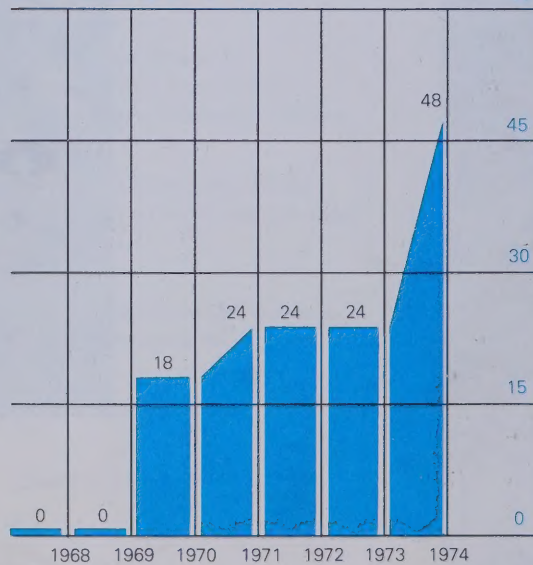
Net Earnings (Millions)



Equity per Share



Dividends per Share



President's Message to Shareholders

We are pleased to report that the year 1974 was one of unparalleled growth in sales and earnings for your Company.

The continued emphasis on the facilities for manufacturing, packaging and distribution has enabled your Company to service customers across Canada and in world export markets with a wide range of high quality products.

Sales of \$34 million for the year 1974 were 39% greater than in 1973 and net income was \$4.7 million, an increase of 114% over 1973.

Working capital increased to \$12.4 million in 1974 from \$7.9 million in 1973, an improvement of \$4.5 million. The ratio of current assets to current liabilities at December 31, 1974 was 3.8 to 1 compared to 2.6 to 1 at December 31, 1973.

In view of the foregoing performance the regular quarterly dividend rate was increased from 6 cents per share progressively to 15 cents per share (5.1 cents to 12.75 cents on the tax deferred dividends).

Greater market penetration, increased unit sales and general price inflation all contributed to the substantial growth in sales and profits in 1974.

Although 1975 first quarter sales showed a modest increase of about 4% over the same period last year, it would be unrealistic to look forward to an upward trend to continue. If consideration is given to the current economic conditions, it is not unreasonable to expect some decline in both volume and margins for the remainder of 1975. As a consequence your directors have decided to defer action in respect to the steel mini-mill project.

However the substantial financial strength of your Company provides a sound base for continued growth and we look to the future with considerable optimism.

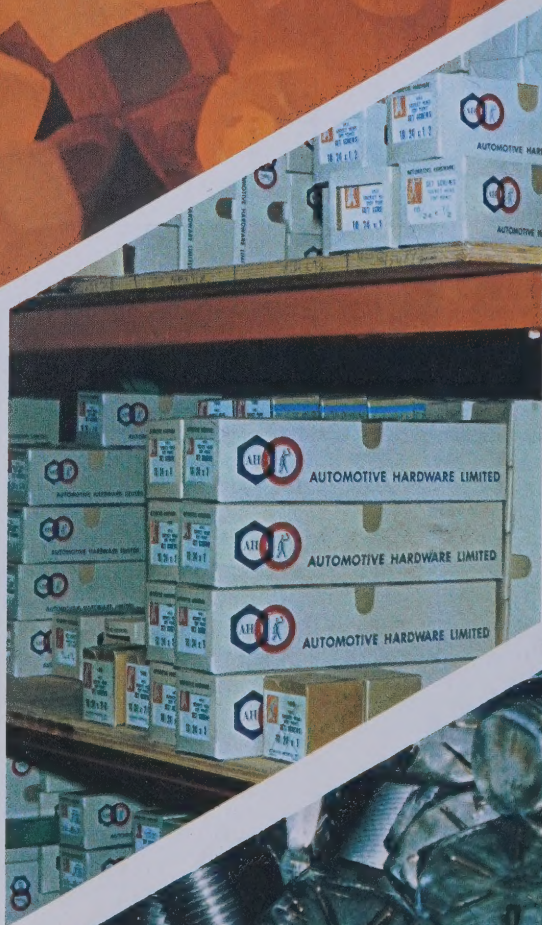
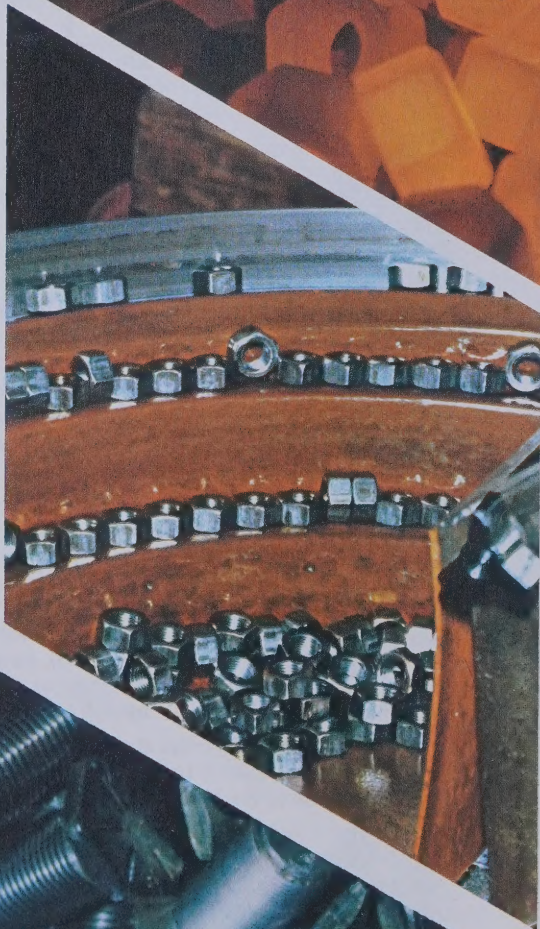
The excellent results of 1974 would not have been possible without the efforts and co-operation of our employees to whom we convey our grateful thanks.

On behalf of the Board of Directors,

Irwin Goldhart, *President*

May 9, 1975





A description of Automotive Hardware Limited

Automotive Hardware Limited is an operating company with three wholly owned operating subsidiaries – Federal Bolt & Nut Corporation Limited, Automatic Screw Machine Products Limited and Docap Corporation Limited.

Automotive is the parent company having self contained warehouses at Dartmouth, Montreal, Winnipeg, Edmonton, Calgary and Vancouver (totalling 120,000 sq. ft.), as well as the main plant (having 310,000 sq. ft.) at 55 Brown's Line, Toronto. In all, these provide efficient, well-stocked units, bringing close to the Company's customers their requirements for a full range of fasteners. Automotive operates three of the most sophisticated and efficient electronic packaging units employed in the industry. It has led the fastener industry in Canada in the development of a universal, single-size case, designed to efficiently accept virtually all standard fasteners. Weighing 15 to 65 pounds, it is easily handled in comparison with the former cases, some of which weighed a back-breaking 157 pounds.

Federal is the subsidiary that manufactures most of the fasteners that Automotive sells. It is here that the major capital investments have been made so that Federal, for example, can operate the first one inch, fully automatic boltmaker in the world, two of the most modern and productive Swiss hot nut-forming machines, a whole battery of the newest and highest speed boltmakers available within our industry. It is Federal which since 1963 has expanded its capacity to heat-treat the highest quality, highest strength bolts from 1000 pounds per hour to 6000 pounds per hour.

Automatic competes in its own sphere, that of the high-speed, manufacture of complex parts, including a full range of brass fittings, all produced on conventional single and multi-spindle screw machines. Automatic also has developed an unusual versatility that makes it the perfect partner for Automotive and Federal. Whenever a customer requires a specially large or long bolt, not within Federal's efficiency-limited capacity to produce, Automatic gets the job. It cuts threads, it rolls threads. It cuts to special length. It forms hooks and bends on the ends of bolts. And it gives Automotive the ability to supply *special* fasteners rapidly to its customers.

Docap is an amalgamation of the former Docap Manufacturing Company Limited and S. F. Bacher and Company, Limited, effected early in 1974. It does business in what is known as the automotive "after market", that is, the supply of replacement parts and service equipment for automobiles and other vehicles.

When acquired, Docap was a slow growing concern which has become fast growing through its association with Automotive and access to Automotive's distribution system and connections.

Its growth is evidenced by its current occupation of a 50,000 sq. ft. building as compared with 15,000 sq. ft. quarters at acquisition in 1965.

Automotive Hardware Limited

and its wholly owned subsidiary companies

Comparative Consolidated Balance Sheet

as at December 31

Assets	1974	1973
CURRENT ASSETS		
Accounts Receivable (Less Allowances for Doubtful Accounts) . . .	\$ 5,405,762	\$ 3,921,128
Inventories, at Lower of Cost or Replacement Cost	10,862,679	8,335,663
Marketable Securities	2,250	2,250
Sales Tax and Duty Drawback Claims Outstanding	385,434	299,483
Prepaid Expenses and Deposits	136,224	158,586
Life Insurance, Cash Surrender Value	—	11,517
	\$16,792,349	\$12,728,627
MORTGAGE RECEIVABLE — 7% due 1979	\$ 74,438	\$ 88,082
FIXED ASSETS, AT COST		
Land	\$ 281,809	\$ 281,809
Buildings	2,482,801	2,482,251
Machinery and Equipment	8,972,374	8,383,531
Motor Vehicles	224,157	181,380
Leasehold Improvements	201,648	187,297
Dies and Small Tools	180,000	180,000
	\$12,342,789	\$11,696,268
Less — Accumulated Depreciation	5,999,129	5,348,646
	\$ 6,343,660	\$ 6,347,622
DEPOSITS ON EQUIPMENT AND DEFERRED TOOLING COSTS	—	\$ 11,487
MILL ACQUISITION AND DEVELOPMENT COSTS	\$ 1,184,551	1,096,976
UNAMORTIZED DEBENTURE DISCOUNT	86,855	93,000
	\$24,481,853	\$20,365,794

The accompanying notes form an integral part of these financial statements.

Liabilities

	1974	1973
CURRENT LIABILITIES		
Bank Loans and Overdraft (Note 7c)	\$ 1,611	\$ 1,107,576
Accounts Payable and Accrued Liabilities	1,589,263	2,048,317
Income Taxes Payable	2,448,384	1,448,092
Dividends Payable	135,278	54,090
Current Portion of Long Term Debt	233,499	204,386
	\$ 4,408,035	\$ 4,862,461
LONG TERM DEBT (LESS CURRENT PORTION AS ABOVE) (Note 4)	\$ 4,107,477	\$ 4,080,865
DEFERRED INCOME TAXES (Note 3)	\$ 858,921	\$ 903,687
ADVANCE PAYMENT FROM CUSTOMER	\$ 319,282	—
Shareholders' Equity		
CAPITAL STOCK (Note 5a)	\$ 1,164,950	\$ 1,159,950
CONSOLIDATED RETAINED EARNINGS	11,782,117	7,517,760
CONTRIBUTED SURPLUS (Note 6)	1,841,071	1,841,071
	\$14,788,138	\$10,518,781
	\$24,481,853	\$20,365,794

Approved on behalf of the Board of Directors:

Irwin Goldhart, Director

Goldie Potashin, Director

Automotive Hardware Limited

and its wholly owned subsidiary companies

Comparative Consolidated Statement of Earnings

for the year ended December 31

	1974	1973
Sales	\$34,066,176	\$24,540,624
Cost of Goods Sold and Operating Expenses Exclusive of Items Shown Below	24,032,907	19,340,874
	\$10,033,269	\$ 5,199,750
Depreciation	\$ 682,815	\$ 704,167
Interest on Long Term Debt	289,991	284,735
Amortization of Debenture Discount	6,145	6,000
	\$ 978,951	\$ 994,902
Income Before Income Taxes	\$ 9,054,318	\$ 4,204,848
Income Taxes	4,271,077	1,987,581
Earnings from Operations	\$ 4,783,241	\$ 2,217,267
Non-Recurring Net Capital Losses (Net After Taxes)	86,059	—
Earnings for the Year	\$ 4,697,182	\$ 2,217,267
Earnings Per Share Shares Outstanding (See Also Note 10)	901,850	901,500
— From Operations	\$ 5.30	\$ 2.46
— Non-Recurring Net Capital Losses	(.09)	—
— Net Total for Year	\$ 5.21	\$ 2.46

Comparative Consolidated Statement of Retained Earnings

for the year ended December 31

	1974	1973
Balance, January 1	\$ 7,517,760	\$ 5,516,853
Net Earnings For The Year	4,697,182	2,217,267
	\$12,214,942	\$ 7,734,120
Dividends Declared	432,825	216,360
Balance, December 31	\$11,782,117	\$ 7,517,760

The accompanying notes form an integral part of these financial statements.

Comparative Consolidated Statement of Changes in Financial Position

for the year ended December 31

	1974	1973
SOURCES OF FUNDS:		
Earnings for the Year	\$ 4,697,182	\$2,217,267
Depreciation	682,815	704,167
Amortization of Debenture Discount	6,145	6,000
FUNDS FROM OPERATIONS	\$ 5,386,142	\$2,927,434
Principal Repayments of Mortgage Receivable	13,644	13,759
Advance Payment from Customer	319,282	
Increases in Share Capital	5,000	16,920
	\$ 5,724,068	\$2,958,113
USES OF FUNDS:		
Purchase of Fixed Assets (Less Proceeds of Disposals)	\$ 667,366	\$ 605,849
Deposits on Equipment		11,487
Reduction in Long Term Debt	(26,612)	205,827
Dividends Declared	432,825	216,360
Deferred Income Tax Adjustment	44,766	138,277
Mill Acquisition and Development Costs	87,575	1,096,976
Increase in Working Capital as Set Out Below	4,518,148	683,337
	\$ 5,724,068	\$2,958,113
CHANGES IN THE ELEMENTS OF WORKING CAPITAL:		
WORKING CAPITAL JANUARY 1	\$ 7,866,166	\$7,182,829
Current Assets – Increase (Decrease):		
Accounts Receivable	\$ 1,484,634	\$ 931,164
Inventories	2,527,016	1,145,862
Sales Tax and Duty Drawback Claims Outstanding	85,951	54,745
Income Taxes Refundable		(108,356)
Prepaid Expenses and Deposits	(22,362)	51,708
Life Insurance, Cash Surrender Value	(11,517)	474
	\$ 4,063,722	\$2,075,597
Current Liabilities – (Increase) Decrease:		
Bank Loans and Overdraft	\$ 1,105,965	\$ 625,555
Accounts Payable and Accrued Liabilities	459,054	(626,336)
Income Taxes Payable	(1,000,292)	(1,448,092)
Dividends Payable	(81,188)	(90)
Current Portion of Long Term Debt	(29,113)	56,703
	\$ 454,426	(\$1,392,260)
NET INCREASE IN WORKING CAPITAL	\$ 4,518,148	\$ 683,337
WORKING CAPITAL DECEMBER 31	\$12,384,314	\$7,866,166

The accompanying notes form an integral part of these financial statements.

Notes to Consolidated Financial Statements December 31, 1974

1. BASIS OF CONSOLIDATION.

The accompanying financial statements combine the accounts of Automotive Hardware Limited and its wholly owned subsidiary companies.

All material inter-company transactions and balances on the aforementioned statements were eliminated for consolidation purposes.

2. DEPRECIATION.

Depreciation on fixed assets in use was computed at the maximum rates allowed by the Income Tax Act except for Federal Bolt & Nut Corporation Limited which was computed at 7½% straight line rate for all equipment. Tools and dies were expensed in the year during which the related equipment was used except for \$180,000 which was capitalized in 1960.

3. INCOME TAXES – PAYABLE AND DEFERRED.

The companies follow the tax allocation principle of providing for income taxes. Under this principle: (a) the earnings statement reflects income tax expense based on consolidated operating results; (b) income taxes payable are calculated on the basis of each company's taxable income; and (c) the difference between income tax expense under (a) above and income taxes payable under (b) above is reflected as an adjustment to deferred income taxes on the balance sheet.

	1974	1973
4. LONG TERM DEBT.		
Equipment Contracts Payable (Secured)	\$ 567,522	\$ 460,683
6⅞% Realty Mortgage Due 1986	778,454	824,568
6% Convertible Debenture, Series A, Due 1989	2,995,000	3,000,000
	<u>\$4,340,976</u>	<u>\$4,285,251</u>
Less – Amounts Due Within One Year	233,499	204,386
	<u>\$4,107,477</u>	<u>\$4,080,865</u>

6% CONVERTIBLE DEBENTURE SERIES A, DUE JULY 2, 1989.

- (a) This debenture, issued July 2, 1969, is secured by a floating charge on the assets of Automotive Hardware Limited and its wholly owned subsidiary companies. Interest is paid semi-annually;
- (b) Each debenture is convertible at the holder's option at any time up to July 2, 1979, at a conversion rate of 70 Class A shares per \$1,000 principal amount;
- (c) In each of the years 1980 to 1988, the Company is obliged to pay to the trustee, by way of a sinking fund, sums sufficient to retire on July 2 in each of such years, 10% of the aggregate principal amount outstanding on July 3, 1979.
- (d) During 1974, debentures totalling \$5,000 were converted into 350 Class A shares.

5. (a) CAPITAL STOCK.

Authorized:

3,500,000 Class A, Voting, Convertible Shares Without Par Value
3,500,000 Class B, Voting, Convertible Shares Without Par Value
260,000 Common Shares Without Par Value

Outstanding and Fully Paid:

1974	1973		1974	1973
254,950	260,600	Class A Shares		
646,900	640,900	Class B Shares		
			<u>\$1,164,950</u>	<u>\$1,159,950</u>

(b) CONVERSION PRIVILEGE OF 6% CONVERTIBLE DEBENTURE, SERIES A.

The Company has reserved 209,650 Class A shares to meet the conversion privilege of the holders of the debenture.

6. CONTRIBUTED SURPLUS.

Net excess of the equity of the subsidiary companies over the cost of their acquisition by Automotive Hardware Limited as at December 31, 1974

(Unchanged from 1973) \$1,841,071

7. COMMITMENTS.

(a) LEASES.

The Company and its subsidiary companies, have entered into leases terminating at various times up to 1985.

Total commitments under such leases were:

1974—\$688,853; 1973—\$858,154, plus realty taxes in each year as applicable.

(b) PENSION PLANS.

1974 1973

The Company has made the following payments:

Contributory Plan \$86,748 \$79,751

Non-Contributory Plans \$81,000 \$96,020

Past service funding of the non-contributory plans' requirements are currently estimated to be \$22,080 annually for each of the next eleven years.

(c) Bank loans were secured by a registered assignment of accounts receivable.

1974 1973

(d) Letters of credit outstanding totalled: \$923,647 \$377,069

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS.

Direct remuneration paid to the directors and senior officers of the Company (ten in number) during the year amounted to \$449,708. In addition thereto, the Company contributed during the year the sum of \$14,277 under its contributory employee pension plan on behalf of these directors and senior officers.

9. Pursuant to lease commitments, the Company paid Mr. Irwin Goldhart, the president of the Company, rentals totalling \$61,938 for warehouses in Vancouver, British Columbia, and Dartmouth, Nova Scotia.

10. EARNINGS PER SHARE.

1974 1973

Shares Outstanding 901,850 901,500

Shares Reserved re Debenture 209,650 210,000

Shares Reserved re Employee Options 26,500

Shares Outstanding and Reserved 1,111,500 1,138,000

Earnings per Share on

Shares Outstanding \$5.21 \$2.46

Diluted Earnings per Share, based on
shares outstanding and reserved \$4.30 \$2.04

Imputed Increase in After Tax Earnings
based on potential funds derived from
the issuance of all shares reserved

\$85,338 \$101,137

Auditors' Report

To the Shareholders of Automotive Hardware Limited:

We have examined the consolidated balance sheet of Automotive Hardware Limited and its wholly owned subsidiary companies as at December 31, 1974, and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974, and the results of their operations and the changes in their financial position for the year then ended, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada.
April 18, 1975.

MILLER, STONE, SAPERIA and ISAACS
Chartered Accountants.

Automotive Hardware Limited

and its wholly owned subsidiary companies

Seven Year Financial Summary

(Thousands except where indicated*)

	1974	1973	1972	1971	1970	1969	1968
SALES	\$34,066	\$24,541	\$19,464	\$17,531	\$15,767	\$15,235	\$12,145
EARNINGS BEFORE TAXES	9,054	4,205	1,740	1,663	1,906	1,836	1,218
NET EARNINGS	4,697	2,217	958	824	906	817	581
NET PROFIT MARGIN	13.8%	9.0%	4.9%	4.7%	5.7%	5.4%	4.8%
EARNINGS PER SHARE*	\$5.21	\$2.46	\$1.06	92¢	\$1.01	91¢	65¢
TOTAL ASSETS	\$24,482	\$20,366	\$17,300	\$16,546	\$15,719	\$13,830	\$12,574
LONG TERM DEBT	4,107	4,081	4,287	4,542	4,584	4,308	1,430
SHAREHOLDERS' EQUITY	14,788	10,519	8,501	7,759	7,316	6,572	4,638
EQUITY PER SHARE*	\$16.40	\$11.67	\$9.45	\$8.62	\$8.13	\$7.30	\$5.15
WORKING CAPITAL	\$12,384	\$7,866	\$ 7,183	\$ 7,069	\$ 7,018	\$ 6,713	\$ 2,492
DIVIDENDS PER SHARE	48¢	24¢	24¢	24¢	18¢	—	—

* Based on 901,850 shares outstanding in 1974, compared to 901,500 in 1973 and 900,000 in previous years.



Subsidiaries:

Automatic Screw Machine Products Limited
Federal Bolt & Nut Corporation Limited
Docap Corporation Limited
Planet Steel Limited

Branch Warehouses:

Vancouver, British Columbia
Edmonton, Alberta
Calgary, Alberta
Winnipeg, Manitoba

Toronto, Ontario
Montreal, Quebec
Dartmouth, Nova Scotia

Head Office:

55 Brown's Line, Toronto, Ontario

